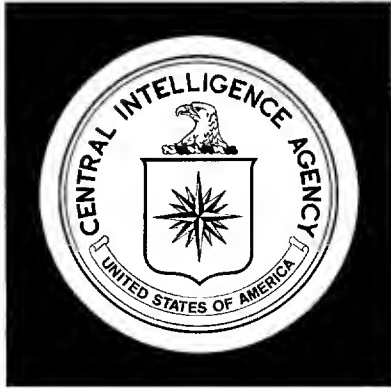


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ITALY-LIBYA: The attack by Libyan jet fighters yesterday on an Italian naval escort craft is symptomatic of Tripoli's jittery attitude, which has produced several other coastal incidents, including the unsuccessful attempt this spring to down a US reconnaissance aircraft. Rome indicated that it would take no retaliatory action in view of a hastily proffered Libyan apology which said the attack was a mistake.

According to Rome, the naval craft was accompanying several Italian fishing boats about 30 miles from the Libyan coast. The escort had been dispatched following Libya's seizure of several Italian fishing trawlers earlier in the week.

Neither country would have much to gain from turning the attack into a major incident. Italy has much at stake in Libya, with its oil development program there just beginning to pay off in rapidly expanding production. According to one estimate, Libyan crude will account for about 30 percent of Italian state oil company production this year. The new Italian government is anticipating a politically explosive oil shortage this winter, and its alternate sources could not make up for the loss of the Libyan supply.

For their part, the Libyans are pushing the Italians for technical assistance needed to operate nationalized oil facilities. Although some oil officials speculate that Italy has agreed to provide such aid, Rome is telling US officials that no decision has been taken. Additionally, with recent sales of armored personnel carriers, Italy has joined the USSR and Czechoslovakia as a major supplier of ground forces equipment to Libya.

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INTERNATIONAL MONETARY DEVELOPMENTS: Speculation against the European joint float subsided and the dollar staged a strong recovery in European money markets yesterday. Official intervention remained substantial, particularly by the Bank of France which sold about \$300-350 million worth of the stronger European currencies. The Bundesbank purchased only about \$60-80 million in French francs, but also provided some early support to the dollar.

Actions by both Paris and Brussels have helped dampen European currency speculation. The Belgians reintroduced charges on Belgian franc accounts held by foreigners in an attempt to diminish the flow of funds into the country. Paris, meanwhile, quietly told banks not to lend French francs to foreign borrowers in an effort to prevent speculation with borrowed funds. The French franc remains at the bottom of the float and is still vulnerable to speculative pressures, as illustrated by a 3-percent difference between the value of the commercial franc--supported by the central banks--and the financial franc, which floats freely in the currency market.

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USSR-CHILE: Moscow yesterday suspended diplomatic relations with Chile and ordered Santiago's diplomats to return home. The move, ten days after the military coup, may have been in response to the junta's decision to ban all Marxist parties. Soviet ships carrying badly needed wheat to Chile will now be diverted. Moscow's East European allies probably will follow suit on relations and on their own grain contracts with Chile. (East Germany announced a break in diplomatic relations last night, and Romanian President Ceausescu has already said his government would not recognize the junta. [redacted]

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AFGHANISTAN: The arrest of several prominent civilian and military leaders appears to substantiate reports that plotting against the new regime is under way and that serious conflicts exist within the government.

Radio Kabul announced on Thursday that former prime minister Maiwandwal, retired former air force chief of staff Razaq, and retired governor of Nangarhar Province Khan Mohammad had been arrested for "antiregime activities." Reports reaching the US Embassy reveal that a large number of additional arrests of military and civilian personnel have been made. The city, where unusual activity by military units was noted on the evening of 20 September, is now described as quiet.

The arrests of Maiwandwal, Razaq, and Khan Mohammad are particularly significant because of their relationship with President Daud.

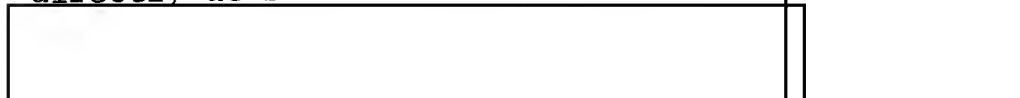
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The arrests may indicate that these three former top officials, and probably others, were engaged in coup plotting. Kabul has recently been alive with rumors of various groups preparing to take action to overthrow the government. The arrests could also, however, reflect the growing estrangement between Daud and his opponents in the Central Committee, with the latter now striking directly at some of Daud's associates.

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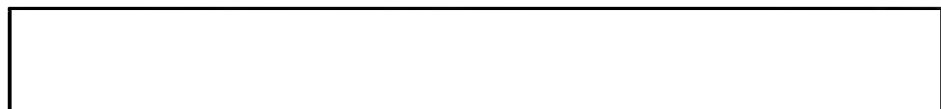


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[REDACTED]
[REDACTED] Continued, perhaps increased, instability for Afghanistan is likely.

Radio Kabul has tied Pakistan to the "anti-regime activities" and has warned Islamabad to cease interfering in Afghan internal matters. This comes at a time when members of the Afghan Government, in conversations with Western diplomats, have indicated that Kabul may henceforth take a tougher line toward Pakistan over the long-simmering Push-tunistan issue.

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JAPAN-IRAQ: The Japanese are negotiating with Iraq a large contract providing for the delivery of 200,000 barrels per day of crude oil for ten years, beginning in 1976, plus 275 million cubic feet per day of liquefied petroleum gas over a 15-year period. In return, Japan is prepared to offer Iraq a \$500-million Export-Import Bank loan.

During the past year the Japanese have been aggressively lining up long-term supplies of crude oil and already have concluded direct purchase contracts with Abu Dhabi, Saudi Arabia, and Iran. Since the settlement last February of Iraq's nationalization dispute with the international Iraq Petroleum Company, the Japanese, with Baghdad's urging, have been making a concerted effort to expand their ties with Iraq and ensure their future access to crude oil. In recent months they have gained a part interest in an oil concession and have signed other long-term contracts for delivery of Iraqi propane and butane gas. If this latest oil contract is concluded, Japan's share of Iraq's projected crude oil output would reach 10 percent by 1976.

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IRAQ: Government forces recently launched new attacks on Kurdish villages in northern Iraq. The assaults follow a period of sporadic clashes over a wide area.

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[redacted] Iraqi forces using tanks and artillery destroyed several Kurdish villages in the Sinjar area last week, forcing their inhabitants to flee into the mountains to the north. [redacted]

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[redacted] risons if government attacks continue. Kurdish leaders have also sent strong protests to President Bakr and to the ruling Baath Party.

The Kurds charge that the government is trying to reduce the area under Kurdish control before the deadline next March for granting them autonomy; the deadline was established by an agreement concluded in 1970.

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[redacted] In the absence of an agreement, localized incidents and limited fighting probably will continue intermittently, but major hostilities will be virtually impossible at this time of year, because of limitations imposed by the weather. If the government reneges on commitments to grant substantial autonomy to Iraq's 2 million Kurds by next spring, heavy fighting might ensue.

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FOR THE RECORD*

Sudan: The trial of Black September terrorists charged with the murders of Ambassador Noel and two other diplomats in Khartoum last March may be further delayed, perhaps until next year. A postponement of the pre-trial inquiry--scheduled to begin 25 September--will probably be necessary. Over half of the 22 Sudanese lawyers appointed to defend the terrorists were imprisoned during antigovernment disturbances earlier this month.

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Sweden: The official results of the election on 16 September confirm that the socialist and non-socialist blocs tied, with each receiving 175 seats in the new parliament. Prime Minister Palme has been conferring with Social Democratic Party leaders, who have apparently decided against a coalition government with one of the parties in the political center. The president of the powerful confederation of trade unions has urged instead that the Social Democrats seek new elections next year after developing a major labor issue.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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